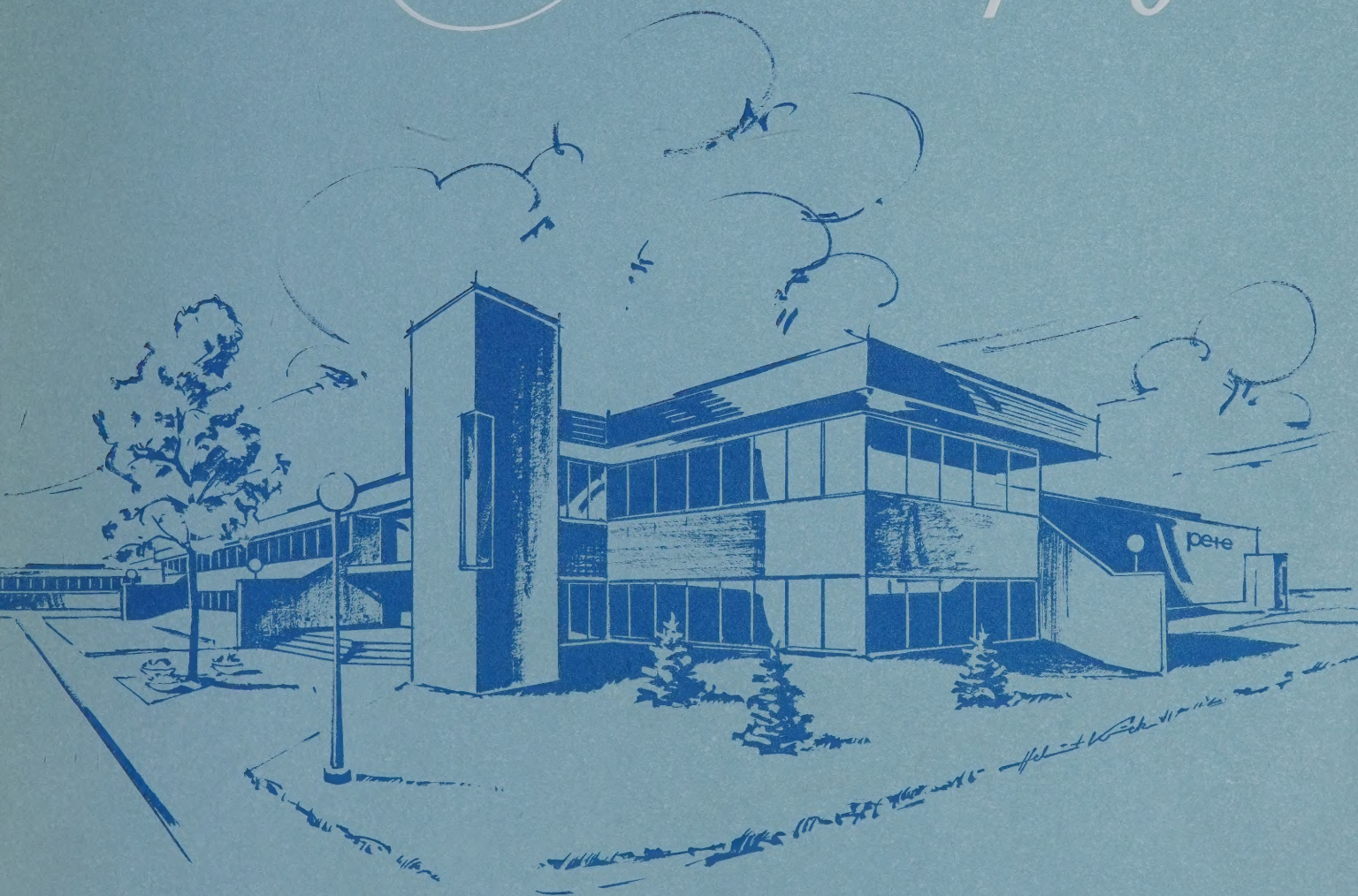


pete

photo engravers & electrotypers ltd.

Annual Report 1972



leaders in the graphic arts since 1906

photo engravers & electrotypers Ltd.

Directors and Officers

GORDON R. GILLIES, *President*

J. R. SHAW, *Vice-President*

JOHN S. DINNICK

H. B. KEENLEYSIDE, C.B.E.

DOUGLAS J. PEACHER

JAMES M. TORY, Q.C.

D. S. PORTER, C.A., *Secretary and Treasurer*

AUDITORS, *Clarkson, Gordon & Co.*

SOLICITORS, *Tory, Tory, DesLauriers & Binnington*

BANKER, *The Bank of Nova Scotia*

TRANSFER AGENT, *National Trust Company, Limited*

REGISTRAR, *Crown Trust Company*

HEAD OFFICE and PLANT, 2250 Islington Ave., Rexdale, Ontario, M9W 3W4

photo engravers & electrotypers ltd.

Financial Highlights

EARNINGS	1972	1971
Sales - - - - -	\$8,748,533	\$8,461,994
Depreciation - - - - -	507,528	504,362
Income taxes - - - - -	406,000	411,500
Net earnings - - - - -	443,639	422,793
Net earnings per share - - - - -	2.44	2.35
Dividends paid - - - - -	203,672	174,819
Dividends per share - - - - -	1.12	.97
<hr/>		
BALANCE SHEET		
Additions to capital assets - - - - -	\$ 548,363	\$ 201,296
Shareholders' equity - - - - -	4,299,974	4,060,007
Shareholders' equity—per share - - - -	23.65	22.33

photo engravers & electrotypers Ltd.

Directors' Report to the Shareholders

Your directors are pleased to submit the annual report of the Company for 1972, together with the financial statements and accompanying auditors' report.

SALES AND EARNINGS In 1972, sales amounted to \$8,748,533 compared with \$8,461,994 in 1971. After meeting all charges, including a provision of \$507,528 for depreciation of plant and equipment, and a provision of \$406,000 for income taxes, there remained earnings of \$443,639 or \$2.44 per share compared with \$422,793 or \$2.35 per share for the previous year.

DIVIDENDS Quarterly dividends of 28 cents per share were paid during 1972, making a total distribution to shareholders of \$1.12 per share or \$203,672 compared with a total distribution of 97 cents per share or \$174,819 in 1971.

PLANT EXPANSION AND FINANCING ARRANGEMENTS

In order to meet the requirements of our customers, your Board of Directors has approved an expansion programme for the purchase of additional bindery equipment and an extension to our present building. This expansion programme is estimated to cost approximately \$2,576,500 and is expected to be completed during the second half of 1973.

Arrangements have been made with the Company's Banker whereby funds not available from operations for this programme are being provided by means of a term bank loan. Further details are provided in the notes to the financial statements.

WORKING CAPITAL As a result of our recent expansion programmes, current liabilities exceeded current assets by \$479,522 as at December 31, 1972. The Company can operate effectively with a working capital deficiency which is expected to continue during the period of our expansion programmes. Further details are provided in the Statement of Source and Application of Funds and in the notes to the financial statements.

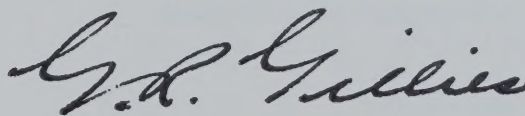
EARNINGS EMPLOYED IN THE BUSINESS As at December 31, 1972 earnings employed in the business amounted to \$3,405,445 compared to \$3,165,478 last year.

SHAREHOLDERS' EQUITY Total shareholders' equity amounted to \$4,299,974 equal to \$23.65 per share, compared with \$4,060,007 or \$22.33 per share a year ago.

OUTLOOK Based on increased requirements, particularly for roto-gravure printing and binding, we expect that net sales for 1973 will show an increase over 1972.

We extend sincere appreciation to all those employees who, through their loyalty and efficiency throughout the year, contributed so much to the high standards of quality and service to our customers.

On behalf of the Board,

A handwritten signature in dark ink, appearing to read "G.D. Gillies". The signature is fluid and cursive, with a long horizontal line extending from the end of the name.

President.

Toronto, Canada
January 30, 1973.

photo engravers

(Incorporated under the laws of the State of California)

BALANCE SHEET

December 31, 1972

(with comparative figures for 1971)

ASSETS

	1972	1971
CURRENT:		
Cash - - - - -	\$ 157,702	\$ 147,184
Accounts receivable - - - - -	144,562	199,679
Portion of notes due within one year under Employees' Stock Purchase Plans (note 2) - - - - -	23,399	23,399
Inventories of materials and work-in-process at cost, less progress payments received - - - - -	643,079	663,477
Prepaid expenses - - - - -	8,931	4,369
TOTAL CURRENT ASSETS - - - - -	977,673	1,038,108
FIXED—at cost (note 1):		
Land and roadways - - - - -	116,928	116,928
Buildings - - - - -	3,646,622	3,619,541
Machinery and equipment - - - - -	9,036,730	8,525,313
	12,800,280	12,261,782
Less accumulated depreciation - - - - -	5,627,492	5,129,829
	7,172,788	7,131,953
OTHER:		
Notes due under Employees' Stock Purchase Plans (note 2) - - - - -	126,708	150,107
	\$8,277,169	\$8,320,168
On behalf of the Board:		
G. R. GILLIES, <i>Director</i>		(See accompanying notes)
J. R. SHAW, <i>Director</i>		

electrotypers Ltd.

e laws of Canada)

SHEET

1, 1972

at December 31, 1971)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1972	1971
CURRENT:		
Bank loan - - - - -	\$ 490,000	\$ 385,000
Accounts payable and accrued charges - - - - -	656,785	614,241
Income and other taxes payable - - - - -	310,410	398,520
Portion of term bank loan due within one year - - - - -		500,000
TOTAL CURRENT LIABILITIES - - - - -	1,457,195	1,897,761
TERM BANK LOAN (note 1) - - - - -	1,000,000	920,000
DEFERRED INCOME TAXES - - - - -	1,520,000	1,442,400
	3,977,195	4,260,161
SHAREHOLDERS' EQUITY:		
Capital stock—		
Authorized:		
250,000 shares, no par value		
Issued:		
181,850 shares - - - - -	894,529	894,529
Earnings employed in the business - - - - -	3,405,445	3,165,478
	4,299,974	4,060,007
	\$8,277,169	\$8,320,168

financial statements)

photo engravers & electrotypers ltd.

Statement of Earnings and Earnings Employed in the Business

Year ended December 31, 1972

(with comparative figures for the year 1971)

	<u>1972</u>	<u>1971</u>
SALES - - - - -	<u>\$8,748,533</u>	<u>\$8,461,994</u>
COST OF SALES and all expenses, except the items noted below - -	7,264,695	6,957,240
Provision for depreciation - - - - -	507,528	504,362
Interest expense on the term bank loan - - - - -	98,690	139,174
Interest expense on current bank loan - - - - -	27,981	26,925
	<u>7,898,894</u>	<u>7,627,701</u>
EARNINGS BEFORE PROVISION FOR INCOME TAXES - - -	849,639	834,293
Provision for income taxes - - - - -	406,000	411,500
EARNINGS FOR THE YEAR* - - - - -	443,639	422,793
EARNINGS EMPLOYED IN BUSINESS, BEGINNING OF YEAR -	3,165,478	2,917,504
	<u>3,609,117</u>	<u>3,340,297</u>
Less dividends paid - - - - -	203,672	174,819
EARNINGS EMPLOYED IN BUSINESS, END OF YEAR - - -	<u>\$3,405,445</u>	<u>\$3,165,478</u>
*EARNINGS PER SHARE - - - - -	<u>\$2.44</u>	<u>\$2.35</u>

(See accompanying notes to financial statements)

photo engravers & electrotypers ltd.

Statement of Source and Application of Funds

Year ended December 31, 1972

(with comparative figures for the year 1971)

	1972	1971
SOURCE OF FUNDS:		
Earnings for the year - - - - -	\$ 443,639	\$ 422,793
Charges not involving a current outlay of funds—		
Provision for depreciation - - - - -	507,528	504,362
Deferred income taxes - - - - -	77,600	47,400
FUNDS FROM OPERATIONS - - - - -	1,028,767	974,555
Shares issued under Employees' Stock Purchase Plans - - - - -		113,025
Less notes received in consideration therefor - - - - -		113,025
		<u>Nil</u>
Increase in term bank loan (note 1) - - - - -	80,000	
Repayments of notes due under Employees' Stock Purchase Plans -	23,399	23,399
	<u>1,132,166</u>	<u>997,954</u>
APPLICATION OF FUNDS:		
Additions to fixed assets - - - - -	548,363	201,296
Decrease in term bank loan - - - - -		490,000
Dividends - - - - -	203,672	174,819
	<u>752,035</u>	<u>866,115</u>
INCREASE IN WORKING CAPITAL - - - - -	380,131	131,839
WORKING CAPITAL (DEFICIENCY), BEGINNING OF YEAR -	(859,653)	(991,492)
WORKING CAPITAL (DEFICIENCY), END OF YEAR - - - -	\$ (479,522)	\$ (859,653)

(See accompanying notes to financial statements)

photo engravers & electrotypers Ltd.

Notes to Financial Statements

December 31, 1972

1. EXPANSION PROGRAMME

In October 1972, the directors authorized an expansion programme which includes the purchase of additional bindery equipment and an extension to the present building on the Company's land in Metropolitan Toronto. This expansion programme is estimated to cost approximately \$2,576,500 and is expected to be completed during the second half of 1973. At December 31, 1972, commitments under this programme amounted to \$1,200,000 of which \$239,900 had been expended to that date.

Funds not currently available from operations to meet these expenditures are being provided by means of a term bank loan bearing an annual rate of interest of 1% over the commercial bank prime rate of interest in effect from time to time. This loan is repayable over the next seven years with regular repayments to commence in 1974. There is a maximum amount available under the loan of \$3,000,000 of which \$1,000,000 (transferred from a previous term bank loan arrangement) has been taken up by the Company to December 31, 1972. The Company has undertaken not to pledge or otherwise encumber any of its assets while any portion of this loan is outstanding.

2. EMPLOYEES' STOCK PURCHASE PLANS

In prior years officers and senior management of the Company, two of whom are full time salaried directors, subscribed for and purchased shares of the Company under Employees' Stock Purchase Plans. The shares were issued at the current market price on the day prior to the subscription date, for consideration in the form of non-interest bearing promissory notes. These notes are secured by a pledge of shares of the Company and are due in equal annual instalments over ten years.

3. PENSION PLANS

All the Company's employees are covered by the Canada Pension Plan and the majority, by various other retirement plans. The amount charged to income (including amounts paid to the government pension plan) was \$113,500 in 1972 and \$107,600 in 1971, which amounts included amortization of prior service costs. During the year the Company granted improvements in the pension coverage and this is reflected in the unfunded prior service costs which at December 31, 1972 were estimated to total \$227,000 (approximately equal to the value of vested benefits at that date) and which will be charged to operations on a straight-line basis over the next eighteen years.

4. REMUNERATION OF DIRECTORS AND OFFICERS

The aggregate remuneration in 1972 of the Company's six directors, as directors, was \$4,800 (\$3,000 in 1971). The aggregate remuneration in 1972 of the Company's three officers, as officers, was \$128,100 (\$118,400 in 1971). Two directors were also officers of the Company during 1972.

Auditors' Report

To the Shareholders of
PHOTO ENGRAVERS & ELECTROTYPERS LIMITED:

We have examined the balance sheet of Photo Engravers & Electrotypers Limited as at December 31, 1972 and the statement of earnings and earnings employed in the business and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1972 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
January 15, 1973.

CLARKSON, GORDON & CO.
Chartered Accountants

photo engravers & electrotypers ltd.

Ten Years' Review

Earnings

Year	Sales	Provision for Depreciation	Earnings Before Income Taxes	Net Earnings	Net Earnings Per Share	Dividends Per Share
1963	\$5,895,215	\$256,456	\$486,993	\$240,493	\$1.46	\$.80
1964	6,147,623	253,368	457,148	227,148	1.38	.80
1965	4,796,848	242,090	433,793	220,093	1.34	.80
1966	5,323,927	305,789	501,770	254,270	1.55	.80
1967	5,960,022	327,032	564,640	282,140	1.61	.80
1968	6,495,118	360,111	608,186	293,486	1.68	.80
1969	7,347,776	501,444	691,336	323,736	1.85	.86
1970	8,228,668	486,597	690,195	327,195	1.87	.92
1971	8,461,994	504,362	834,293	422,793	2.35	.97
1972	8,748,533	507,528	849,639	443,639	2.44	1.12

Balance Sheet

Year	Working Capital (Deficiency)	Plant and Equipment at Cost	Plant and Equipment After Depreciation	Funded Long Term Debt	Term Bank Loan	Shareholders' Equity	Shareholders' Equity Per Share
1963	\$1,336,540	\$ 5,689,024	\$2,719,722	\$1,250,000		\$2,382,778	\$14.50
1964	922,983	5,329,854	2,735,802	1,000,000		2,496,185	15.19
1965	643,667	5,999,022	3,170,037	750,000		2,625,304	15.97
1966	764,131	6,535,191	3,403,065	500,000		2,920,041	17.77
1967	244,788	7,641,891	4,255,915	250,000	\$ 255,000	3,206,091	18.32
1968	(611,244)	9,477,706	5,738,084		712,000	3,359,577	19.20
1969	(539,181)	10,633,676	6,399,648		1,144,000	3,532,813	20.19
1970	(991,492)	12,068,972	7,435,020		1,410,000	3,699,008	21.14
1971	(859,653)	12,261,782	7,131,953		920,000	4,060,007	22.33
1972	(479,522)	12,800,280	7,172,788		1,000,000	4,299,974	23.65



Artists

Photographers

Rotogravure Engravers

Rotogravure Printers

Bookbinders